

SPENDING AFFORDABILITY COMMITTEE
REPORT
FISCAL YEAR 2003



BALTIMORE COUNTY, MARYLAND
FEBRUARY 15, 2002



BALTIMORE COUNTY, MARYLAND
SPENDING AFFORDABILITY COMMITTEE
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February 15, 2002

Honorable Members of the Baltimore County Council
Honorable C.A. Dutch Ruppersberger, III, County Executive

I am pleased to submit the report of the Spending Affordability Committee for Fiscal Year 2003. This is the twelfth year of reporting under the County's Spending Affordability statute, which was adopted in March 1990.

For Fiscal Year 2003, the Committee establishes a Spending Affordability Guideline of \$1,162,057,242, based on a personal income growth forecast of 4.51%. This represents a \$59.7 million increase over the Administration's FY 2002 SAC Guideline after correcting for a \$1,765,300 error in the prior year's spending base. Included in the Guideline is a \$9.6 million increase that represents the second installment of a \$28.8 million adjustment to be phased in over a three-year period. This adjustment reflects the cumulative difference between the projected growth in personal income adopted by the Committee and the actual growth that occurred between FY 2001 and the Guideline's inception. The Committee also recommends that debt service not exceed nine percent (\$109,737,000) of FY 2003 General Fund revenues and that total outstanding debt not exceed two percent (\$872,345,460) of FY 2003 estimated assessed real property value.

During its deliberations, the Committee was mindful of the slowing in the County's economy. The Committee reviewed information provided by the Regional Economic Studies Institute (RESI) at Towson University indicating that the local and State economies are still growing while the national economy is in recession. The recession, which officially began in March, 2001, was exacerbated by the events of September 11th, and while many national economists concur that increased federal spending due to the events of September 11 will mitigate the current recession, RESI has suggested the possibility of a so-called "V-shaped" recession, characterized by a sharp contraction and an equally sharp recovery. Although there is uncertainty about when the economy will recover, a consensus opinion prevailed nonetheless that the County's economy will continue to grow and that County personal income will follow.

It is important to emphasize that the Spending and Debt Affordability Guidelines are simply that, guidelines, and represent neither a ceiling nor a floor on County government operating or capital spending or debt issuances. The County Executive and County Council may exceed the Guidelines; however, a rationale for exceeding the recommendations must be provided. The Guidelines are meant to limit spending such that it is affordable and yet, at the same time, provides essential government services and maintains the County's infrastructure at an acceptable level of service.

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This year the Committee identified a number of issues affecting spending affordability in Baltimore County. Most of these issues were addressed by the Committee and are reflected in the recommended guidelines. During the coming year, the Committee will meet to address other issues in a continuing effort to ensure that Baltimore County remains the best place to live, work and raise a family.

I would like to thank my Council colleagues on the Committee for their energetic participation in the committee process and for their thoughtful assistance to me as Chairman. I would also like to thank Mr. Michael A. Funk of RESI, and Mr. John F. Gaburick, who has served on this Committee since its inception. In addition, the Regional Economic Studies Institute at Towson University provided the Committee with its personal income forecast as well as other valuable economic analysis and insights.

I would also like to acknowledge the support of the County Auditor's Office. A very special thanks to Brian J. Rowe, CPA, County Auditor; Elizabeth J. Irwin, Manager, Budget Analysis and Fiscal Research; Paul R. Mainan, Senior Fiscal Analyst; Denise C. Harb, Fiscal Specialist; and Michelle F. Ganjon, Fiscal Analyst Assistant, for their great help and spirit of cooperation.

We hope that this report is given careful consideration in the development and review of the County's operating and capital budgets for Fiscal Year 2003.

Sincerely,



S.G. Samuel Moxley, Chairman
Spending Affordability Committee
Councilman, 1st District

SGSM:mfg

BALTIMORE COUNTY, MARYLAND SPENDING AFFORDABILITY COMMITTEE

MEMBERS

S.G. Samuel Moxley, Councilman and Chairman

T. Bryan McIntire, Councilman

Wayne M. Skinner, Councilman

Michael A. Funk
Economist
RESI

John F. Gaburick, CPA

STAFF

Brian J. Rowe, CPA
County Auditor

Elizabeth J. Irwin
Manager of Budget Analysis and Fiscal Research

Paul R. Maihan
Senior Fiscal Analyst

Denise C. Harb
Fiscal Specialist

Michelle F. Ganjon
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Attachments:

■	Exhibit I	Fiscal Year 2003 Spending Affordability Guideline
■	Exhibit II	Debt Service as a Percentage of General Fund Revenues
	Exhibit III	Total Debt as a Percentage of Real Property Value
	Exhibit IV	Fiscal Years 2002 and 2003 Revenue Forecast
■	Exhibit V	Estimated Fiscal Year 2002 Surplus
■	Appendix A	Calculation of Spending Affordability Guideline
	Appendix B	Spending Not Subject to Personal Income Growth

BALTIMORE COUNTY, MARYLAND SPENDING AFFORDABILITY COMMITTEE Report for Fiscal Year 2003

Introduction

In March 1990, the Baltimore County Council enacted legislation (Bill 33-90) that established a spending affordability law (Code sections 15-281 to 15-287) for Baltimore County. To ensure that growth in County spending does not exceed the rate of growth of the County's economy, the law mandates that the Spending Affordability Committee make a recommendation each fiscal year on a level of County General Fund spending that would be consistent with the County's economic growth.

By law, the Spending Affordability Committee must submit a report to the County Council and County Executive by February 15 of each year. This reporting date allows the Executive ample time to consider the Committee's recommendations before formally presenting the proposed budget to the Council on or before April 16 of each year. The purpose of this report is to provide formal input, from the County Council to the County Executive, related to the formulation of the County budget. Such reporting is a significant component of the governmental system of checks and balances, helping to ensure that the operation of County government remains affordable for its citizens. The Guidelines are intended to set recommended maximum County spending levels that should not be exceeded in a particular fiscal year; however, the Guidelines may be exceeded at the discretion of the County Executive or County Council if a rationale is provided for doing so. To date, the County Executive has not proposed and the County Council has not adopted a budget exceeding the Committee's recommended guidelines. Our hope is that the Fiscal Year 2003 operating and capital budgets are again within the Committee's recommended Guidelines.

Current Economic Conditions and Outlook: United States, Maryland and Baltimore County

The Committee reviewed current and projected economic conditions affecting the County, State and nation to ensure that it adopted a growth factor consistent with this outlook. The U.S. is currently in a recession that officially began in March 2001 with the end of the longest economic expansion in U.S. history; the events of September 11th exacerbated the contraction. Third quarter 2001 Gross Domestic Product (GDP), the broadest measure of economic activity, contracted at an annual rate of 1.3%; this was the first quarterly contraction since 1993 and the sharpest negative quarter since the second quarter of 1991. Also in the third quarter of 2001, corporate profits were down by over eighteen percent from a year earlier. Further, the

December employment report showed another 124,000 job losses nationwide with job losses totaling about 1.4 million since the recession began. The December slide in payrolls pushed the national unemployment rate up to 5.8%, the highest since April 1995.

However, some positive indicators are beginning to emerge. In December, the Conference Board's Consumer Confidence Index rebounded sharply, after falling rapidly from September to November. Also, consumer spending, which comprises approximately two thirds of all economic activity, has not contracted since 1991. In fact, despite the third quarter 2001 GDP drop of 1.3%, third quarter consumer personal consumption expenditures actually rose by one percent. With an improving consumer attitude and the Federal Reserve's eleven interest rate reductions in 2001, the national recession may be nearing an end. The "Blue Chip" economists survey in early December indicated that while the fourth quarter of 2001 will likely show another contraction of 1.3%, the national economy will begin to recover in the first quarter of 2002.

RESI reported that Maryland (and Baltimore County, by extension) is less vulnerable to the current contraction due to its relatively high proportion of federal government employees, defense contractors, health care workers and other labor groups that will not feel the full brunt of the recession. Maryland's recent economic performance parallels that of the U.S., with somewhat weaker growth in 1998 and 2000 and moderately stronger growth in 1999 and 2001. Projections for personal income growth in 2002 and 2003 suggest that growth will be slightly stronger in Maryland than in the nation. However, the differential will be narrow and the rate of growth, both nationally and in the State, will be well below that experienced in recent years.

Over the calendar year 1990 to 1999 period, the annual rate of growth in personal income in Maryland exceeded Baltimore County's personal income growth rate by an average of 0.4 percentage points. This personal income growth differential between the State and County is estimated to have remained constant for FY 2000, and then to have narrowed for fiscal years 2001 and 2002. For FY 2003 and 2004, RESI forecasts that the County's personal income growth rate will be higher than the State's by approximately 0.08 percentage points per year. It is this personal income differential between the State and County that the Committee uses to adjust the consensus State forecast and to set a growth factor for the County.

Spending Affordability Guideline

The Spending Affordability Guideline for a given fiscal year is calculated by applying a personal income growth factor to the previous fiscal year's estimated "base" spending level, as defined by the Committee (Appendix A). In other words, the previous year's base spending is increased by a percentage amount equal to the estimated percentage growth in County personal income. The personal income growth factor adopted by the Committee is based on the average of several

personal income forecasts for Maryland (averaged over the two calendar years spanning the fiscal year). The Committee adjusts this average by the personal income growth differential between Baltimore County and the State, as forecast by RESI (the only forecaster that provides a separate Baltimore County personal income forecast).

This year's Spending Affordability Guideline includes \$9.6 million representing the second installment of a three-year, \$28.8 million adjustment. This adjustment reflects the cumulative difference between the projected growth in personal income as adopted by the Committee and the actual growth that occurred in County personal income between FY 1991 and FY 2001. Phasing in this adjustment over a three-year period (i.e., three \$9.6 million installments) provides a smoothing effect to the Guideline and allows for any corrections or revisions to the personal income growth rates that may occur during this period.

The personal income growth factor adopted by the Committee for FY 2003 is 4.51%, and the FY 2002 base year spending level (after adding the \$9.6 million personal income growth adjustment) is \$1,111,910,097. Applying the adopted personal income growth factor to the adjusted base year spending level results in a Spending Affordability Guideline of \$1,162,057,242. This Guideline represents a \$59.7 million increase over the Administration's FY 2002 SAC Guideline after correcting for a \$1,765,300 error in the prior year's spending base.¹ **Accordingly, the Committee recommends that the FY 2003 operating budget (as defined by the Committee) not exceed \$1,162,057,242 (Exhibit I).** The Committee further recommends that in staying below this Guideline, the Executive should avoid intentionally under-funding essential budget areas in order to fund new initiatives.

Debt Affordability Guidelines

The Committee reaffirms as reasonable and fiscally sound the two debt affordability guideline policies that it adopted in Fiscal Year 2001, pertaining to debt service and total outstanding debt as a percentage of General Fund revenues and assessed real property value, respectively. The Committee's review of debt affordability and the setting of specific guidelines provides an enhanced system of checks and balances, further displaying the County's fiscal responsibility to its citizens, bond rating agencies and others in the financial community.

¹ The error corrected in this Guideline pertains to the exclusion of grants awarded by the Commission on Arts and Sciences. The exclusion was created in the FY 1998 Guideline on the premise that such grants do not fund essential County services and thus are considered one-time-only spending. However, in calculating the FY 2002 Guideline, the Committee excluded *all* grants made by the County, including those to nonprofit organizations that carry out essential County services on the County's behalf. This error occurred because in FY 2001, the County transferred all grants into one fund for budgetary purposes. This year's Guideline rectifies this error and once again excludes only those grants made by the Commission on Arts and Sciences; all other organizational grants are included in base-year spending.

The ratio of debt service to total General Fund revenues is an important debt affordability indicator. Credit analysts generally concur that a ratio higher than 1:10 (i.e., over ten percent) suggests that the debt burden is too heavy. The Administration's financial guidelines set a target range of eight to nine percent; in FY 2002, debt service accounted for 4.9% of the County's actual General Fund revenues. **The Committee recommends that debt service not exceed nine percent of Fiscal Year 2003 estimated General Fund revenues, or \$109,737,000 (Exhibit II).**

Likewise, the ratio of total outstanding debt to assessed property value is also a measure of debt affordability. The Committee believes that assessed real property value is the appropriate guideline against which outstanding debt should be measured because property value has a clearer relationship to bond proceeds than does personal income; both bonds and property represent a real asset or the development of one. Further, real property value is a more stable base upon which to set a debt guideline than is personal income, which can be volatile and subject to significant revision. The Committee believes that this guideline should only apply to real property and not personal property because personal property is not capital in nature and is not typically associated with debt instruments.

The County Charter provides that total County outstanding debt shall not exceed ten percent of the County's assessable base. The Administration's financial guidelines set a target range of 1.4% to 2.0% for debt as a percentage of full value; for Fiscal Year 2002, total outstanding debt represented approximately 1.2% of full value. **The Committee recommends that total outstanding debt not exceed two percent of Fiscal Year 2003 estimated assessed real property value, or \$872,345,460 (Exhibit III).**

General Fund Revenues and Surplus

Total General Fund revenues for Fiscal Years 2002 and 2003 are projected to reach \$1,198 and \$1,219 million, respectively (See Exhibit IV). The Fiscal Year 2002 revenue estimate represents a 0.1% decline from Fiscal Year 2001 actual revenues, the first such decline since Fiscal Year 1992. After discounting the \$13 million property tax cut passed last year, FY 2002 revenues actually show a nearly one percent increase; however, FY 2002 revenue growth would still be well below the 4.6% average annual growth rate experienced from FY 1992 to FY 2001. For FY 2003, the \$1.219 billion in projected revenues represents 1.8% growth over projected FY 2002 revenues. The decline in revenues for FY 2002 and the below-average revenue growth for FY 2003 are consistent with the current economic slowdown. Nonetheless, the Fiscal Year 2003 revenue forecast of \$1,219.3 million is \$57.2 million above the Spending Affordability Guideline set by the Committee.

Property taxes, the County's primary source of General Fund revenue, are projected to reach \$530 million and \$545 million for Fiscal Years 2002 and 2003, respectively. The estimate for 2002 represents 0.6% growth over FY 2001; the 2003 estimate represents a 2.8% increase over FY 2002. In comparison, the average annual growth in property tax revenues from FY 1992 to FY 2001 was 4.3%. The increases from FY 2001 to FY 2003, which are partially offset by a reduction in the property tax rate, are primarily due to a higher property tax base.

Income tax receipts, which represent the County's second largest source of General Fund revenue, are comprised of taxes on personal income and on capital gains. For Fiscal Year 2002, income taxes are expected to increase by \$1.8 million from FY 2001 levels to \$449 million. For Fiscal Year 2003, income tax revenues are expected to increase by \$6 million to \$455 million. These increases yield a growth rate of 0.4% for FY 2002 and 1.3% for Fiscal Year 2003 and are primarily due to the projected increases in personal income during these years, offset by lower capital gains.

Recordation and title transfer taxes, which represent the County's third largest source of General Fund revenue, are projected to rise slightly in FY 2002 from \$55.4 million to \$57.6 million, an increase attributable to the housing market's strength in the first half of FY 2002. For FY 2003, recordation and title transfer taxes are projected to decline to approximately \$54.0 million as the available supply of existing homes decreases.

Revenues from the County's remaining sources, which comprise less than fifteen percent of the General Fund, are projected to equal \$161.5 million in FY 2002 and \$165.3 million in FY 2003. These figures are lower than FY 2001's \$170.6 million, primarily because the County has fewer surplus funds to invest and because lower interest rates yield a decreased return on investment. The slight projected increase from FY 2002 to FY 2003 is principally attributable to an increase in investment income; however, FY 2003 investment income will nonetheless remain at approximately half of the level experienced in FY 2001.

Revenue Stabilization Reserve Account (RSRA)

The Committee recognizes that the total fund balance is an important indicator for sound fiscal policy and helps to maintain the County's triple-A bond rating. In 1992, the County Council enacted legislation establishing the Revenue Stabilization Reserve Account to ensure that the County would have cash reserves to offset a General Fund deficit. The legislation established a fund balance of three percent of the General Fund budget, although the County Administration voluntarily maintained a fund balance of five percent. In its FY 2002 Spending Affordability report, the Committee recommended that the RSRA be maintained at a level equal to five percent of the General Fund budget, noting that a majority of states with reserve funds have a

requirement for at least a five percent reserve and that the bond rating agencies look favorably on a reserve of this level. The Committee also recommended that interest attributable to the fund be accrued to the reserve and not to the General Fund.

At the end of Fiscal Year 2001, the County Council adopted legislation raising the required balance in the Revenue Stabilization Reserve Account from three to five percent of the General Fund budget. The legislation also requires that interest or other investment income attributable to the account be credited to the RSRA at the close of each fiscal year. The Committee affirms its support for this fiscally sound policy and commends the Council for its adoption.

For FY 2002, the General Fund balance is estimated to total \$84.1 million (See Exhibit V). This \$84.1 million estimate includes \$64.7 million in the Revenue Stabilization Reserve Account (RSRA), which is \$3.2 million more than the five percent minimum due to investment income that accrued to the account during fiscal years 2001 and 2002. The remaining \$19.4 million represents an undesignated, unreserved fund balance.

The Committee believes that funds in excess of the five percent RSRA target should be retained to provide only short-term tax stabilization. Further, funds well in excess of the five percent RSRA minimum should be eliminated through one-time expenditures or tax rate reductions. Surplus funds should not be used to fund ongoing expenses.

Reserve Funds

During its deliberations, the Committee considered the proper treatment of spending from reserve funds, such as spending from the Health Insurance Reserve. In prior years, spending from or appropriations to reserves were not included in “base-year” spending, primarily because reserves were considered an accumulation of prior-year funds (i.e., surplus) while appropriations to the reserves were considered “one-time-only” disbursements that are not normally included in the Guideline. However, given the sharp rise in health insurance costs and the necessity to dip into reserves to cover current year costs, the Committee became concerned that such spending did, in fact, represent an operating cost that should be tied to the growth in the County’s economy. After some discussion, the Committee adopted a policy to include appropriations to reserves (excluding the RSRA) in the base-year spending for purposes of calculating the Spending Affordability Guideline. This policy is effective for all fiscal years beginning after June 30, 2002.

Summer Study

During its deliberations, the Committee also discussed at length its statutorily-mandated functions, considering whether its appropriate role is to control total spending or to limit growth

in total spending based on the growth in the County's economy. Committee members agreed that in 2002, the Office of the County Auditor will conduct a summer study of the Baltimore County Spending Affordability Law (Code § 15-281 to 15-287). The study will consider the purpose of the Spending Affordability Guideline, will examine changes in the State's SAC law (on which the County modeled its law) and will suggest changes to the County law if appropriate.

Other Issues

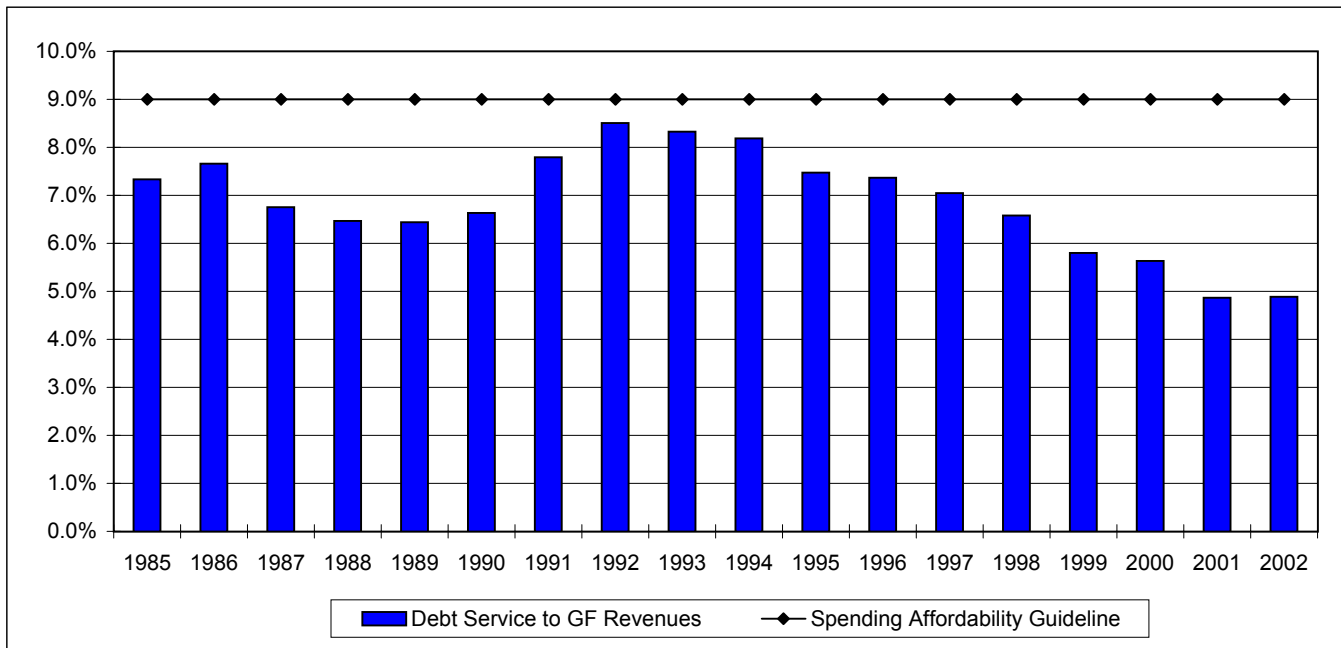
As the Committee continues to review an increasingly broad range of issues, it recognizes the importance of continued meetings after issuance of the annual report. The Committee will, therefore, continue to meet during 2002 to discuss such topics as refining revenue and budget projections for use in setting the Guidelines; examining the relationship between personal income growth and County revenue and budget growth; examining the growth of fees for service and other Special Funds; and smoothing the effect of Debt Service on the Guideline.

**BALTIMORE COUNTY, MARYLAND
SPENDING AFFORDABILITY COMMITTEE (SAC)
FISCAL YEAR 2003 GUIDELINE**

	FY 2002 Budget
General Fund Operating Budget Appropriations	\$1,228,942,284
Supplemental Appropriations	<u>0</u>
Sub-Total	<u>1,228,942,284 (A)</u>
SAC Adjustments:	
Selected Non-County Funds	
State and Federal Grants in Aid (excluding tax reimbursement)	(29,115,404)
Local Share - State & Federal Grants	(4,645,947)
Education - Federal/Restricted Program	(969,495)
Capital-Related Items	
PAYGO	(65,609,000)
Reserve Funds	
Contingency Reserve	(467,646)
Local Grants	
Arts & Science Grants	(3,966,950) ¹
Other Adjustments	
One-time-only Expenditures - Board of Education	(11,438,782)
One-time-only Expenditures - Other	<u>(10,407,754)</u>
Total Adjustments	<u>(126,620,978) (B)</u>
FY 2002 SAC Spending, Base Year (A - B)	\$1,102,321,306 (C)
Growth Factor to Personal Income Adjustment	<u>9,588,791 (D)</u>
FY 2002 Adjusted SAC Spending, Base Year (C + D)	\$1,111,910,097 (E)
Growth Factor	x <u>1.0451 (F)</u>
FY 2003 SAC Spending Guideline (E x F)	<u>\$1,162,057,242 (G)</u>

¹ The exclusion for Arts and Science grants has been reduced by \$1,765,300 to correct for an error in the FY 2002 Guideline. Certain "Organizational Grants" were erroneously excluded in FY 2002.

BALTIMORE COUNTY, MARYLAND
DEBT SERVICE AS A PERCENTAGE OF GENERAL FUND REVENUES



Fiscal Year	General Fund Revenues	Debt Service ¹	Debt Service/ Revenues
1985	\$570,915,904	\$41,881,021	7.3%
1986	590,361,657	45,212,131	7.7%
1987	633,587,471	42,782,690	6.8%
1988	688,248,138	44,511,364	6.5%
1989	733,403,105	47,229,889	6.4%
1990	792,369,875	52,580,384	6.6%
1991	820,557,654	63,953,476	7.8%
1992	801,995,002	68,239,158	8.5%
1993	844,559,646	70,338,690	8.3%
1994	864,330,812	70,757,472	8.2%
1995	891,915,401	66,654,807	7.5%
1996	919,128,524	67,681,120	7.4%
1997	963,223,099	67,876,726	7.0%
1998	1,031,218,688	67,821,340	6.6%
1999	1,094,359,672	63,462,996	5.8%
2000	1,134,690,565	63,908,826	5.6%
2001	1,199,848,000	58,418,000	4.9%
2002	1,209,479,108	59,138,604	4.9%
2003	1,219,300,000	109,737,000	9.0% ²

¹ Excludes debt service related to pension funding and metropolitan district bonds.

² Recommended Guideline for debt service.

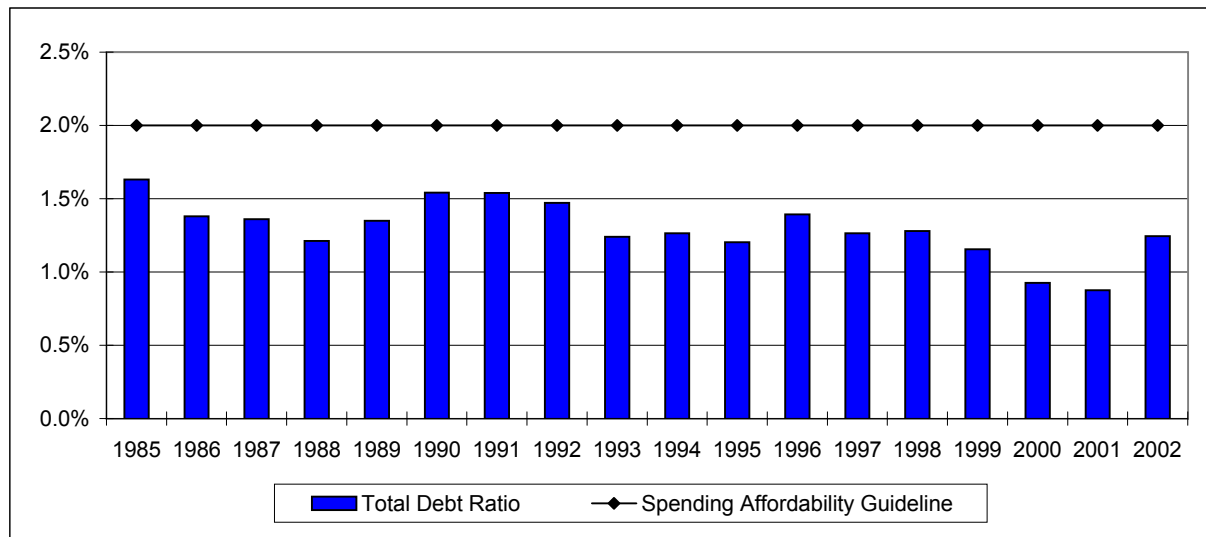
Note: FY 2002 and 2003 revenues and debt service are estimated. All prior years are actuals.

Source: Baltimore County Annual Budget Documents

Exhibit II

BALTIMORE COUNTY, MARYLAND

TOTAL DEBT AS A PERCENTAGE OF REAL PROPERTY VALUE



Fiscal Year	Debt as a Percentage of Full Value			Debt Outstanding*
	G.O. Bonds	Other Borrowings	Total Debt	
1985	1.6%	0.0%	1.6%	\$257,184,571
1986	1.4%	0.0%	1.4%	235,404,476
1987	1.3%	0.0%	1.4%	253,828,121
1988	1.1%	0.1%	1.2%	248,787,015
1989	1.2%	0.1%	1.4%	305,497,700
1990	1.3%	0.2%	1.5%	384,877,462
1991	1.3%	0.2%	1.5%	426,612,740
1992	1.3%	0.2%	1.5%	448,448,227
1993	1.1%	0.1%	1.2%	409,590,628
1994	1.1%	0.1%	1.3%	430,939,815
1995	1.1%	0.1%	1.2%	420,140,000
1996	1.3%	0.1%	1.4%	494,164,000
1997	1.1%	0.1%	1.3%	458,887,000
1998	1.2%	0.1%	1.3%	477,029,000
1999	1.1%	0.1%	1.2%	442,316,000
2000	0.9%	0.1%	0.9%	364,803,000
2001	0.8%	0.1%	0.9%	354,987,000
2002	1.1%	0.2%	1.2%	520,371,000
2003	Guideline		2.0%	872,345,460

* Excludes debt related to pension funding and metropolitan district bonds.

Note: FY 2002 debt is projected. All prior years are actuals.

FY 2003 guideline based on estimated real property value of \$43,617,273,000

Personal property is excluded from this analysis.

Sources: Baltimore County Comprehensive Annual Financial Reports; Office of Budget and Finance; Maryland State Department of Assessments and Taxation

BALTIMORE COUNTY, MARYLAND
FISCAL YEARS 2002 and 2003 REVENUE FORECAST
(\$ in Millions)

	<u>FY 2001 ACTUAL</u>	<u>FY 2002 REVISED</u>	<u>FY 2003 ESTIMATE</u>	<u>PERCENT CHANGE</u>	
				<u>FY 01-02</u>	<u>FY 02-03</u>
PROPERTY TAXES	\$ 526.6	\$ 530.0	\$ 545.0	0.6%	2.8%
INCOME TAXES	447.2	449.0	455.0	0.4%	1.3%
RECORDATION & TITLE TRANSFER TAXES	55.4	57.6	54.0	4.0%	-6.3%
OTHER SALES & SERVICE TAXES	46.5	45.5	46.5	-2.2%	2.2%
LICENSES & PERMITS	3.7	3.7	3.8	0.0%	2.7%
FINES, FORFEITURES & PENALTIES	6.6	6.5	6.8	-1.5%	4.6%
SERVICE CHARGES	6.6	6.6	6.7	0.0%	1.5%
INTEREST ON INVESTMENTS	14.2	6.0	7.0	-57.7%	16.7%
INTERGOVERNMENTAL AID					
State Shared Revenue	36.5	36.5	37.5	0.0%	2.7%
State Grants	31.4	33.4	33.0	6.4%	-1.2%
Federal Grants	3.2	3.3	3.5	3.1%	6.1%
Subtotal Intergovernmental Aid	<u>71.1</u>	<u>73.2</u>	<u>74.0</u>	<u>3.0%</u>	<u>1.1%</u>
OTHER	<u>21.9</u>	<u>20.0</u>	<u>20.5</u>	-8.7%	2.5%
TOTAL	\$1,199.8	\$1,198.1	\$1,219.3		
Growth Over Prior Year	5.7%	-0.1%	1.8%		

BALTIMORE COUNTY, MARYLAND
ESTIMATED FISCAL YEAR 2002 SURPLUS
(\$ in Millions)

FY 2001 General Fund Surplus (per CAFR)		\$114.941
FY 2002 Revenue Estimate (per Adopted Budget)	1,209.479	
FY 2002 Revision (per SAC)	<u>(11.379)</u>	
FY 2002 Revised Revenue Estimate (per SAC)		1,198.100
FY 2002 General Fund Appropriations (per Adopted Budget)	1,228.942	
FY 2002 Supplemental Appropriations	<u>0</u>	
FY 2002 Revised General Fund Budget		<u>1,228.942</u>
FY 2002 Estimated Surplus (per SAC)		\$84.099
Revenue Stabilization Reserve Account*		\$64.675
Undesignated Unreserved Fund Balance		\$19.424

- * The FY 2002 end-of-year estimate is \$3.228 million higher than the mandated 5 percent minimum due to interest that accrued to the RSRA during fiscal years 2001 and 2002.

CALCULATION OF SPENDING AFFORDABILITY GUIDELINE

The Spending Affordability Guideline for a given fiscal year is calculated by applying a personal income growth factor to the previous year's estimated "base" spending level, as defined by the Committee. Specifically, the recommended level of spending is calculated as follows:

General Fund Operating Budget Appropriations (previous fiscal year)

$$\begin{aligned} &+ \quad \text{Supplementary appropriations} \\ &- \quad \text{Adjustment for spending not subject to the SAC Guideline (selected non-County funds, General Fund contributions to the capital budget (i.e., PAYGO), reserve funds, local grants and other adjustments itemized in Appendix B)} \\ &= \quad \text{"Base" Spending (previous fiscal year).} \end{aligned}$$

"Base" Spending (previous fiscal year)

$$\begin{aligned} &+ \quad \text{Growth Factor to Personal Income Adjustment}^2 \\ &= \quad \text{Adjusted "Base" Spending (previous fiscal year)} \end{aligned}$$

Adjusted "Base" Spending (previous fiscal year)

$$\begin{aligned} &\times \quad \text{Growth Factor (projected personal income growth for the next fiscal year)} \\ &= \quad \text{Spending Affordability Guideline (new fiscal year)} \end{aligned}$$

² This adjustment began in the FY 2002 Guideline and is being phased in over a three-year period. The adjustment reflects the cumulative difference between the projected growth in personal income as adopted by the Committee and the actual growth that occurred in the County between the Guideline's inception and FY 2001.

SPENDING NOT SUBJECT TO PERSONAL INCOME GROWTH

Appropriations supported or determined by non-county funds:

- State and federal grants budgeted in the General Fund: these funds support State and/or federal programs/activities that are not directly supported by County taxpayers and therefore are not dependent upon or controlled by the growth in County personal income.
- Local Share - State and Federal Grants: the total required County General Fund match for all anticipated grants is based on the level (and match provisions) of grant funding. Acceptance of State and federal grants is discretionary.
- Education - Federal/Restricted Programs: the required County General Fund match for such funds in the Department of Education is similarly based on the level (and match provisions) of grant funding.

Capital budget-related appropriations:

- Pay-As-You-Go (PAYGO): the General Fund contribution to the capital budget, if any, is determined annually based on funds that are available and not otherwise committed to supporting County services. Thus, such expenditures may be viewed as one-time outlays.

Reserve funds and contingencies:

- Revenue Stabilization Reserve Account (RSRA): appropriations or transfers to the RSRA do not represent expenditures but rather a reserve of funds available in case of an operating deficit. These funds are required to equal at least 5% of the General Fund budget.
- Contingency Reserves: these funds are appropriated for unanticipated needs (e.g., emergencies) and are not earmarked for a specific purpose or program. As such, this appropriation does not represent an expenditure but rather a reserve for contingencies. If these funds are spent, the nature of the expenditure would be examined to determine its effect on baseline spending (e.g., one-time or ongoing).

Local grants:

- Grants awarded by the Commission on Arts and Sciences (budgeted as “Organizational Contributions”) are purely discretionary and may be viewed as one-time-only. As such, funding is subject to the availability of revenues and/or surplus and need not be limited to growth in personal income.

Other Adjustments:

- Specific exclusions for one-time, nonrecurring costs or revenues such as spending by the Board of Education for items excluded from the State Maintenance of Effort requirement.
- Other expenditures or revenues, to be determined on a year-to-year, case-by-case, basis